



BlueCross BlueShield of Montana

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February 4, 2008

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Via regular mail and facsimile to 406-444-3497

Honorable John Morrison, Esq.
State Auditor and Commissioner of Insurance
State Auditor's Office
840 Helena Avenue
Helena, MT 59601

RE: Insure Montana Rate Stabilization Account

Dear Commissioner Morrison:

BCBSMT is committed to the ongoing success of the Insure Montana program. Illustrating this commitment, in a letter dated March 23, 2007 from me to you, Blue Cross and Blue Shield of Montana ("BCBSMT") agreed to establish a rate stabilization account for the Insure Montana program if claims incurred from January 1, 2006 through December 31, 2007 and paid through December 31, 2008, totaled less than 83% of premiums. The 83% of premiums reflected a 75% target loss ratio plus 8% for mandatory expenses. The final accounting for the arrangement established by my March 23, 2007 letter is scheduled to occur on or soon after December 31, 2008. I have attached my March 23, 2007 letter for your convenience.

The Montana Auditor's office ("DOI") and Insure Montana have again requested that BCBSMT establish a rate stabilization account arrangement for the contract year starting January 1, 2008 and ending December 31, 2008. This letter sets out the terms of the new arrangement.

BCBSMT is again voluntarily agreeing to establish a rate stabilization account if claims incurred in the Contract Period and paid through the Runout Period, plus the 8% mandatory expenses, total less than 83% of premiums.¹ BCBSMT will place the difference into a rate stabilization fund for the benefit of the Insure Montana Pool. BCBSMT will allow Insure Montana, at its discretion, to apply any amounts in the rate stabilization account as follows: (i) a credit against any future premiums; (ii) to buy down premium increases; (iii) to take a premium holiday; or (iv) to take reversion to Insure Montana or payout of the fund.

Total premiums will include all premiums received by BCBSMT for all Insure Montana products issued to eligible small employers by BCBSMT for all or any part of the Contract Period. Paid claims will include all claim expenditures for enrollee benefits for products with dates of service

¹ For the purposes of this letter, the "Contract Period" is defined as the period beginning January 1, 2008 and ending December 31, 2008. The "Runout Period" is defined as the 12 month period starting on January 1, 2009 and ending December 31, 2009.

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occurring during the Contract Period and submitted and paid through the Runout Period, less applicable third party liability recoveries, coordination of benefit recoveries, casualty recoveries and pharmacy rebates.

After December 31, 2009, BCBSMT will determine the total paid claims for the Contract Period. BCBSMT will add total paid claims to the mandated expenses (8%), and divide the sum by the total premiums received for the Contract Period. If the result is less than .83 (83% of total premiums), BCBSMT will place the difference into the rate stabilization fund. If the result is .83 (83%) or greater, no funds will be placed in a rate stabilization fund.

This new arrangement is separate and distinct from the arrangement established by my March 23, 2007 letter, although the calculations and methodology will be the same. Also, Insure Montana and BCBSMT have contracted for the provision of insurance to Insure Montana members and the insurance premiums to be charged for these insurance policies. This letter does not amend that contract. As stated above, a flat amount equal to 8% of premiums will be added to paid claims for purposes of the calculation described above. The BCBSMT mandated expenses and retained amounts will not vary or be subject to adjustment depending or based upon actual costs incurred.

As I stated last year, BCBSMT values this public-private partnership undertaken to provide more Montanans with health coverage. We appreciate the opportunity to work together toward the common goal of providing health care coverage to as many Montanans as possible. BCBSMT is committed to working toward the success of Insure Montana.

Sincerely,



Sherry L. Cladouhos
Chief Executive Officer

cc: Janice VanRiper, Esq.
Christina Goe, Esq
Terry Cosgrove, Esq
Jared Short